POLICY

SUBJECT:	**Capital Assets**
APPROVED BY:	**Board of Library Trustees**
APPROVAL DATE:	**December 18, 2003**
EFFECTIVE DATE:	**December 18, 2003**

NEW ( ) REVISED (X)

Supersedes policy on Fixed Assets adopted December 21, 2000.

1 General Information

The Allen County Public Library (ACPL) Capitalization Policy was last amended in December of 2000. The new policy will be referred to as the **Capital Asset Policy**. This revision is being instituted to change the minimum dollar value of capital assets, reported on our financial reports from $1,000 to $5,000. This revision is related to the implementation of the new reporting model, Governmental Accounting Standards Board Statement 34. The new reporting model will require the ACPL to depreciate capital assets. Recommendations from several sources, including the State Board of Accounts, suggested a capital asset threshold of $5,000. An asset with a value of under $5,000 will be expensed in the year of purchase. The implication of this change on our financial reporting will be that the number of non-library material assets reported will be reduced by 85.4% while the dollar value of non-library material assets will decrease only 34.5% from 2003 to 2004.

The ACPL currently utilizes common business office software, such as spreadsheets, to track and account for the fixed asset of the library. It is the intention to implement a more comprehensive Fixed Assets Management system in order to provide a higher degree of control over its considerable investment in capital assets , and to be able to demonstrate accountability to its various constituencies: citizens, rate-payers, oversight bodies and regulators.

The purpose of establishing a formalized Capital Assets Management Policy is threefold:

1. to safeguard the investments of the citizens of Allen County and demonstrate appropriate stewardship responsibility for public assets,

2. to provide a basis for formulating capital asset acquisition, maintenance and retirement policies,

3. to provide for financial reporting.

2 Definitions of Capital Assets

Capital assets of the ACPL include: land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, works of art, and library material. All items with a useful life of more than one year, and having a unit cost of $5,000 or more shall be capitalized (including acquisitions by lease-purchase agreements and donated items). Capital assets meeting this criteria will be reported and depreciated in the government-wide financial statements. All land will be capitalized, but not depreciated. Items that are generally understood to appreciate in value such as rare book collections and works of art, will also be capitalized but not depreciated. Rather, their values will be adjusted as periodic independent appraisals are performed on them.

Assets that are not capitalized (I.E. items costing less than $5,000) will be expensed in the year of acquisition. An inventory will be kept on all items costing less than $5,000 but more than $1,000 (including computer equipment) and will be classified as non-capitalized items in any fixed asset management system.
Exceptions are:

- items costing less than the above limits, which are permanently installed as a part of an existing asset (i.e. buildings or equipment), will be included in the capitalized cost of the existing asset;

- cabinets, shelving, bookcases, and similar items, added subsequent to original construction, which are custom made for a specific place and not adaptable elsewhere, will be capitalized.

Threshold levels for capital assets

The following schedule will be followed for the different types of capital assets:

	For the purpose of Tracking/Inventory	For the purpose of Capitalizing/Depreciating
Land	$1	All/Capitalize only
Works of art and other appreciating assets	$1	All/Capitalize only
Land and Building Improvements	$1	$5,000
Building	$1	$5,000
Machinery, Furniture, and Equipment	$1,000	$5,000
Vehicles	$1,000	$5,000
Library Material (composite grouping)	$1	All

NOTE: Construction in Progress will be tracked from start to finish for each project. Upon completion, these dollars will be transferred out of Construction in Progress and onto a physical asset.

3 Valuation of Capital Assets

Capital assets must be recorded at actual cost. Normally the cost recorded is the purchase price or construction costs of the asset, any other reasonable and necessary costs incurred to place the asset in its intended location and intended use are also included. Such costs could include the following:

- legal and title fees, closing costs,
- appraisal and negotiation fees, surveying fees,
- damage payments,
- land preparation costs, demolition costs,
- architect, engineering and accounting fees,
- insurance premiums during construction,
- transportation charges,

Donated or contributed assets should be recorded at their fair market value on the date donated.

4 Asset Definitions by Major Category

It is important to the maintenance of accurate records that each asset category be precisely defined and that all persons responsible for records maintenance be fully aware of the categorization system. This section further clarifies the asset definitions by major category.

Land:

Land is defined as specified land, lots, parcels or acreage owned by the ACPL, regardless of the method or date of acquisition.

Buildings:

All structures designed and erected to house equipment, services, or functions are included. This includes systems, services, and fixtures within the buildings, and attachments such as porches, stairs, fire escapes, canopies, areaways, lighting fixtures, flagpoles, and all other such units that serve the building.

Plumbing systems, lighting systems, heating, cooling, ventilating and air handling systems, sprinkler systems, alarm systems, sound systems, and surveillance systems, passenger and freight elevators, built-in casework, walk-in coolers and freezers, fixed shelving, and other fixed equipment are included with the building, if owned.

Improvements to Land and Buildings:

Examples of assets that could fall into this category are walks, parking areas and drives, fencing, underground sprinkler systems, and other similar items that would be added subsequent to the initial purchase or construction.

Machinery, Furniture, and Equipment:

Equipment includes all other types of physical property within the scope of the capital asset management system not previously classified. Included within this category are office mechanical equipment, office furniture, appliances, furnishings, machinery items, maintenance equipment, communication equipment, vehicles, text/printing equipment, data processing equipment. All supplies are excluded.

Library Materials

This will include all books, audio/visual materials, microforms, periodicals, and other media that are customarily included in the library collection.

5 Depreciation Methods

The ACPL will depreciate capital assets by using either the composite/group method of depreciation or the straight-line method. There will be no salvage value. Depreciation will be calculated at year-end. Land is not depreciated according to generally accepted accounting principles.

Composite/Group Depreciation
Composite/group depreciation refers to calculating depreciation for a collection of similar assets. This will be the method the ACPL will use for the library material collection. A single composite rate is applied annually to the collection as a whole based upon the acquisition costs. Adjustments are then made to the total cost of the account for any additions/disposals throughout the year and to the accumulated depreciation associated with the collection. Library material will be depreciated using a three (3) year useful life.

Straight-line Depreciation
Capital assets, other than library material, will be depreciated using the straight-line method of depreciation. A gain or loss on disposal will be recorded. Following is a list of the most common useful lives:

- Vehicles - 5 years
- Office Furniture and Equipment – 5 years
- Buildings – 40 years
- Improvements to Land and Buildings (HVAC systems, roofing) – 20 years
- Grounds Equipment and Other Machinery– (mowers, snowblowers, etc.) - 5 years

6 **Capital Asset Acquisition**

The method of acquisition is not a determining factor for capitalization. All assets subject to capitalization will be reported regardless if acquired by:

-regular purchase,
-lease purchase agreement – see below,
-construction by Library personnel,
-construction by an outside contractor,
-donation/contribution,
-addition to an existing asset,
-trade or barter

Leased equipment should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term
- The lease contains a bargain purchase option
- The lease term is equal to 75 percent or more of the estimated economic life of the leased property
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90 percent of the fair value of the leased property.

Leases that do not meet any of the above criteria should be recorded as an operating lease and reported in the notes of the financial statement.